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Near East & South Asia

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REGIONAL AFFAIRS

Center Studies Ties To Muslim Republics
92AF0725A Cairo *AL-AHRAM AL-DUWALI* in Arabic
24 Apr 92 p 6

[Article by Dr. Taha 'Abd-al-'Alim of Political and Strategic Studies Center: "Egypt and Commonwealth Islamic Republics"]

[Text] Since the Asian Islamic republics proclaimed their independence from the former Soviet Union, there has been a mixture of promise, concern, and illusion in Egypt regarding the consequences and horizons of this serious historical development. The interested circles are numerous, and they include decision-makers, businessmen, and political forces. The priorities of those concerned also vary, covering the strategic, economic, and political. Thus, the decision-maker must observe the relations, interactions, and alliances that develop or could develop among these republics and the neighboring countries in the Middle East. By necessity, a businessman observes the fate of the economic interests that tie him to these countries' markets, which are suffering from an economic collapse, not to mention the possible competition to which he may be subjected. The political forces are divided between those who are pleased with the ascendance of the banners of liberal capitalism, those disillusioned by the arrival of the signs of Islamic fundamentalism, and those shocked by the downfall of the illusions of communism and internationalism.

The fact is that the collapse of the Soviet Union has—from the perspective of Egyptian interests—led to numerous risks and few likely opportunities. One of the opportunities lies in the independence of the Islamic republics and the promise harbored in their Islamic identity. In Egypt's leadership role in the Islamic world, and in Egypt's inclination toward these republics and other independent republics, lie the possibilities of utilizing Egypt's historical relations with the heirs to the former Soviet Union. Egypt's regional role dictates that Egypt try to reduce the risks and enhance the chances of interaction between the independent Islamic states and the Middle East countries. Add to this the fact that Egypt's balanced international relations and Egypt's increased economic capability are elements that push in this direction. However, we must avoid loss of direction in this inclination. This requires an objective determination of the independence circumstances and horizons, and the conditions and priorities of the commonwealth's Islamic states in this transitional period. On the other hand, it requires a sound arrangement of the priorities of the Egyptian inclination toward these republics, taking into account the immediate and long-term interests and the international and regional realities.

Independence Circumstances and Horizons

The independence of the commonwealth's Islamic republics has been the result of the collapse of the Soviet empire, not the fruit of a national liberation struggle or of an Islamic fundamentalist revival. Azerbaijan's secessionist tendency notwithstanding, independence has come as a

result of disintegration of the Soviet empire's multi-tier structure or multi-sphere framework, especially with Gorbachev's restructuring revolution and Yeltsin's revolution to rebuild anew. The Soviet Union disavowed whatever allies it had left in the socialist-inclined countries and abandoned the international imperialist sphere. It then abandoned the allies and protégés it had created. The empire's European sphere disappeared and then the Soviet Union itself disintegrated with the independence of the republics in its union. The empire's Soviet sphere was torn apart and the proclamations of independence came in rapid succession. The danger of collapse extended to the empire's Russian sphere. However, Russia's capabilities and the calculations of the parties concerned will maintain a Russian union that is narrower than the Tzarist Empire and broader than Federalist Russia. That will include, at a minimum, the Russian center and the Islamic parties. To put it briefly, these parties' conditions force them to be tied to a Russian commonwealth, even if on a new basis.

The Islamic ethnic elites were merged in the communist bureaucratic elite, and they continue to rule, despite the change in their banners and their programs. Interests and fears have been, and continue to be, a fundamental element binding the Islamic republics to the Russian Union. So they all approved the initial draft of the economic treaty that was supposed to be signed on 20 August [1991] but was foiled by the abortive coup, even though the three Baltic republics had refused to sign the agreement even before it was foiled. The Islamic republics of Central Asia then supported Gorbachev's last desperate attempt to rescue the collapsing Soviet state by signing the second draft of the economic treaty, whereas seven other republics refused to sign the treaty before it collapsed, thus proclaiming the end of the Soviet Union. Despite the successive proclamations of secession and despite Yeltsin's measures to inherit the Soviet state, only the Muslim republics of Central Asia and the Federated Republic of Russia remained within the Soviet Union legally, one week after the 19 August 1991 coup. After the surprise proclamation of the Slavic Commonwealth in Minsk behind the back of the Islamic republics of Central Asia, these republics, along with Azerbaijan, joined this commonwealth on the basis of the Alma Mata declaration.

There is no doubt that the independent Islamic states are going through a transitional period with open possibilities, insofar as their relations with the former Soviet Union are concerned. But we find it unlikely that these possibilities include an regression to the past, because the Soviet Union's disintegration has not been a frivolous coincidence, the result of a plot, or the fruit of betrayal. Whatever role the Gorbachev administration or Yeltsin administration have played in accelerating the collapse—whether because of poor assessment or of the tendency for adventure—the disintegration was the result of interconnected objective factors. Elements of the Soviet Union's cohesion, i.e., the totalitarian system and the economy of communist directives and ideology, failed historically simply because they became unable to move forward. They even became an obstacle to progress. It was also impossible to rebuild the Soviet Union, as made evident by analyzing the lessons

of the August coup. It is no secret that this [collapse] may open the gates of mass suicide through a civil war in a nuclear state abounding with contradictions. But whatever the commonwealth's fate, the Islamic republics—because of their special geographic, historical, demographic, economic, political, and cultural conditions—are led by interests and fears to maintain a special relationship or a tie of unity with Russia. There is no doubt that the ruling elites have no interest in creating a new dominant center. The peoples, with their original nationalities—even the resettled nationalities—will not easily relinquish their liberation from the jail of totalitarianism. Russia is pushing in the same direction in order to benefit from the advantage of the bond and to free itself of the burden of annexation. The West seems to have an interest in this new bond because it blocks the path of any fundamentalist Islamic bloc in central and west Asia and because, at the same time, it permits the west to move freely in Russia's vital sphere.

Post-Independence Conditions and Priorities

The commonwealth's Islamic republics, as a whole, incorporate an important—though relatively limited—part of the total capability of the former Soviet superpower. But the relative capabilities of these republics clearly vary. The superiority of Kazakhstan's total capability is evident. For example, Kazakhstan is the only one of these republics to possess strategic weapons, both nuclear and non-nuclear.

Tactical nuclear weapons, not to mention nuclear technology materials and knowledge, are found in these republics. Tajikistan contains the most important sources of crude uranium for the former Soviet Union. The commonwealth's Islamic republics comprise 18.2 percent of the total area of the former Soviet Union. Kazakhstan encompasses 66.6 percent of the area of these republics. In 1990, these republics contained 20 percent of the Soviet Union's population. Of this 20 percent, 65 percent was concentrated in Kazakhstan and Uzbekistan. The commonwealth's Islamic republics had a 13.4-percent share of the Soviet gross domestic product. Kazakhstan and Uzbekistan had nearly 69.4 percent of this share. The Islamic republics had a 12.7-percent share of the Soviet Union's national wealth. Kazakhstan and Uzbekistan had 69.3 percent of this share. Of the industrial production, the republics had an 8.2-percent share and Kazakhstan and Uzbekistan had 63.4 percent of this share. Of the agricultural production, the Islamic republics had a 16.9-percent share and Kazakhstan and Uzbekistan had 69.8 percent of this share.

But comparative economic and social indicators demonstrate the relative backwardness of these republics. We may, with reservation, exclude Kazakhstan, to which some Russian territories have been annexed and in which the original ethnic group represents 40 percent of the population. In 1990, for example, Kazakhstan's industrial labor productivity was 90 percent of the average Soviet productivity and 23 percent of the average U.S. productivity. In Azerbaijan, this productivity amounted to 60 percent and 15 percent, respectively. The two indicators for agriculture in Kazakhstan amounted to 100 percent

and 9 percent, and in Uzbekistan to 56 percent and 5 percent. The average per capita share of the gross national income amounted in Kazakhstan to 90 percent of the average Soviet per capita share, and in Tajikistan to 50 percent of the Soviet share. Compared to the U.S. average, this share amounted to 27 percent and 15 percent in the two republics, respectively.

Compared to the Soviet Union, Kazakhstan's per capita consumption share ranged from 48-84 percent. Compared to the United States, the share ranged from 10-17 percent. But despite the failure of the economy run by directives—including its failure from the angle of its entrenchment of unequal development in the center and the outlying regions, and despite the favoritism shown to the European republics because of security and economic considerations—the economies of the Islamic republics have witnessed immense developments when compared with the conditions of these economies under the Tzarist Empire and the conditions of the Islamic regional countries. Add to this the fact that these republics contain significant agricultural, mineral, and oil resources and possess a broad base of human and scientific resources. Some of the more modern civilian and military industries are located in these republics, which also have important trade and investment markets.

We believe that the priorities of the foreign policy of the commonwealth's Islamic republics, and the place of their Middle East policy within the framework of these priorities in the transitional period, will be the result of a number of specific fundamental factors. Foremost among these factors are the commonwealth conditions and the domestic conditions in each republic, not to mention the U.S. and Western influences and the ties with the neighboring countries in the region. We believe that the Islamic republics' priorities will be determined by the priority of turning to Russia, the fate of the commonwealth bond, the identity of the ruling elite, the outcome of the struggle for power, the impact of the economic collapse, the course of the economic reform, the population's ethnic makeup, and the content of the Islamic identity, not to mention the turn toward the United States and the Western countries, motivated by an internal inclination and external pressure. On the other hand, and in addition to the impact of the aforementioned factors, the place of the Middle East countries in these priorities will be determined by geographic proximity and cultural and historical ties. The current Arab crisis does not offer these republics enough incentive to turn to the Arab world. While the Arab countries, which had extensive historical relations with the Soviet Union, seem to be shackled, effective coordination is absent from direct Egyptian and Saudi activity. Turkey's role receives U.S. and Western support because Turkey is considered a Western bridge for liberal secularism and for besieging Iranian fundamentalism at present and Russian power in the future. Iran's active role, which is taking advantage of geographic adjacency and of the historical cultural ties, is gaining prominence. This role may receive Russian support by virtue of Russia's interest in securing a regional balance with Turkey and in utilizing beneficial economic and military ties [with Iran].

Priorities and Options of Egyptian Inclination

The opportunities that seem to be available as a result of independence of the commonwealth's Islamic republics must not conceal the fact of possible dangers, in case direction is lost in drafting Egyptian foreign policy in light of the important new change. The point is that the firm strategic necessities to promote Egypt's relations with these Islamic republics must not conceal the changing practical considerations taken into account in managing Egypt's relations with any Islamic country. Thus, Egypt's tendency to promote relations with the commonwealth's Islamic republics through the Islamic bond must not ignore the fact that Egypt's leadership position, regional influence, and international status are facts based more on Egypt's influential role in the Arab circle than in the Islamic circle or other circles. When planning to enter through the gate of the Islamic bond, Egypt must realize that the Islamic characteristic in these republics doesn't so much reflect an Islamic condition, as it reflects the ethno-cultural identity of their peoples. The predominant secular tendency of these republics' elites must not be concealed. This Egyptian inclination must certainly not be stirred by the motives of establishing Islamic governments and must not be propelled by the desires to spread the Islamic call, because this matter concerns these republics' peoples primarily, and because it is in conflict with the principles of international relations.

But Egypt must respond to any legal tendency that urges it to disseminate a religious, cultural, and civilizational message, which it is already doing within the Islamic sphere through al-Azhar and on the basis of the principle of non-intervention in domestic affairs and of establishing relations with legitimate governments.

The necessity of developing Egypt's relations with the Islamic republics must not ignore the priority of developing Egypt's relations with the Russian Union, the sole legitimate heir to the former Soviet Union as a superpower. Neither should occur at the expense of [relations with] the other heirs, especially the Ukraine. We find that the special relations that tie the Islamic republics to the Russian Union are one reason why these republics and relations with these republics are important. The point is that we should balance Egypt's international relations in order to utilize the historical asset of the Egyptian-Soviet relations in developing Egypt's relations with the Russian

Union—the superpower with its likely capabilities and its international role—especially by virtue of its ties with the Middle East. It is no secret that the decisive weight of Egypt's economic and trade relations, i.e., the most significant spheres of Egyptian-Soviet relations, is focused in Russia primarily, and in the Ukraine in the second place, by virtue of their greater ability to provide machinery, requirements, and raw materials that Egypt needs, in return for nontraditional Egyptian exports.

The Islamic republics have joined new regional organizations in the Middle East region, led by Turkey and Iran. The bonds that attract these republics to these two countries seem to be stronger than the motives that attract them to the Arab countries. Add to this the direct, concentrated Israeli effort to establish relations with these republics. The significance of Uzbekistan's prompt establishment of full diplomatic relations with Israel is not lost. Despite relatively strong Uzbek Islamic affiliation, this relationship has been established to court the friendship of the United States.

Within the context of this feverish competition, Egypt's inclination toward the Islamic republics must not disregard the priorities we have pointed out.

Moreover, efforts must be made for Arab coordination on the basis of common strategic interests, and to redouble the factors that pull these republics away from alliances that could pose a threat to Arab and Gulf security. To put it briefly, achieving Egypt's national interests and accomplishing Egypt's role as the center of regional stability dictate that we refrain from pushing toward intensifying conflicts with countries in the region and that we move in a direction that opens the door for greater U.S. and Western support for developing a comprehensive Egyptian capability. Through the negotiations to arrange the Middle East conditions, anything that seems to be a threat to security and peace in the region must be settled. In this transitional period through which the Islamic republics and other commonwealth republics are going, a close daily followup of the developments that we encounter and the alliances that we build is of utmost importance to magnifying gains and reducing losses. Developing the comprehensive Egyptian capability—especially economic, production, and technological capability—will continue to be the principle guiding this Egyptian inclination that seeks to bolster development and security on the basis of balanced mutual interests.

First Year Results of Economic Reform

92AF07004 London *AL-SHARQ AL-AWSAT* in Arabic
20 Apr 92 p 10

[Article by Safa' al-Minyawi: "Egyptian Report Monitors Result of First Year of Economic Reform; Unemployment, Inflation Most Important Problems; Government Revenues To Register Rise in 1992"]

[Text] Cairo—Concerning the results of the 1990-1991 economic reform in Egypt, its impact on all aspects of life, and the most important predictions for 1992, the Arab Consultants' Center has issued a report on economic affairs in Egypt under the title, "The Nation in a Year." The report covers financial, monetary, and trade aspects and the extent to which they have been affected by the economic adjustment programs: aspects ranging from national production and income, to national investments, unemployment, and inflation, and finally the state of the national budget. The report, the economic and financial portion of which was prepared by Dr. Hamdi 'Abdal-'Azim, professor of economics at the al-Sadat Academy of Management Science, shows a gross domestic product of 91.457 billion [Egyptian] pounds in 1990-1991, a 5.2 percent increase over 1989-1990. This affected the average individual share of the domestic product, which increased from 1,508 pounds in 1989-1990 to 1,605 pounds in 1990-1991, an average increase rate of 4.4 percent. The low rate can be attributed to the increase in population, which during the same period exceeded 57 million people, against 55 million.

The value of consumption was about 49 billion pounds. The value of domestic savings was about 1.1 billion pounds, a rate of 1.2 percent of the gross domestic product. Although this rate is small relative to the requirements of economic development, it represents a reasonable beginning given the negative saving (-4.5 percent) that took place in 1989-1990. The rate includes forms of private, public and family savings in public-sector enterprises, banks, gold, real estate, and even "under-the-mattress" savings. It should be noted that the savings rate in the developed countries and in the Arab oil countries exceeds 70 percent. However, in the non-oil Arab countries the rate did not exceed 9 percent.

As for the state of national investments, the report indicates that the strength of national investment is too low to satisfy the requirements of economic development, with 47.4 percent of the volume of national investments (7.6013 billion pounds) implemented in 1990-1991. This can be traced to a number of reasons, the most important of them being the lack of availability of credits necessary for public investment in the public budget. This was reflected in the implementation rate of government-sector investments, which did not exceed 52.5 percent of target, and in the drop of the implementation rate to 39.1 percent of target in the private sector. The drop was clearest in the social services sector and in the commodities sectors. The third reason involved difficulties entailed by the fact that the foreign component necessary to implement investments was not adequately provided. The rate of implementation of foreign credit facilities declined to 33.4 percent of

target, foreign grants to 44.9 percent, and loans to 67.1 percent. The fourth reason involved the weakness of domestic savings and the shortage of domestic money due to continuing enforcement of credit ceilings. As a result, the implementation rate for domestic money needed to fund investments was 49 percent.

The fifth and sixth reasons had to do with the high cost of investment due to high foreign currency exchange rates, interest rates, and the prices of production requisites. In addition, financial and money markets in Egypt are weak and ineffective in stimulating investment activity. Finally, there were the events and disturbances that occurred in the Arab region in 1990.

Thus, although a 3.7 percent increase in the volume of public investments in 1990-1991 was targeted, the implementation rate dropped to 53.3 percent compared with the previous year.

Unemployment Increases

As for the phenomenon of unemployment in the national economy, it is clear that the Egyptian economy is still suffering from a chronic unemployment crisis. The unemployment rate increased from 15 percent in 1989 to 23.1 percent in 1990-1991. This was the result of the presence of large numbers of workers looking for work but unable to obtain it given the continued decrease in labor accompanying the recession.

As for the effects of the economic reform policy on price levels in Egypt, the investigator makes it clear that in a single year, 1990-1991, these measures led to a price rise of no less than 55 percent. At the same time, wages and salaries for government and public sector employees, who represent only 10 percent of the total population of Egypt, increased only 15 percent. This contributed to low overall demand for goods and services. Unemployment consequently increased. This caused producers to refrain from expanding production or caused them to reduce the number of personnel employed for production. The unemployment problem adversely affected the economic climate suitable for growth of national income, production, and domestic and foreign trade activity, especially given the lack of a system of unemployment insurance like that used in the developed countries.

As for inflation in the Egyptian economy, the year 1990-1991 saw an unprecedented increase in the inflation rate in the wake of policies aimed at reforming the budget and balance of payments in accordance with International Monetary Fund [IMF] directives. This entailed lifting supports from commodities and production requisites. Prices of many goods and services, agricultural products, and power were raised to a level close to world prices. The government lowered support for agricultural insecticides and fertilizer by 50 percent in June 1991 and is moving to abolish support completely on these items in 1992-1993, in accordance with the letter of intent. The government has raised the price paid for delivery of a qintar [44.93 kg] of cotton from 40 to 100 pounds for the 1991 crop, with the goal of raising the purchasing price to the equivalent of 60 percent of the world price.

Official statistics confirm a 28-percent inflation rate in Egypt in 1990. Recent measures after the IMF agreement have led to the raising of prices by 55 percent over the previous year (1989-1990). The inflation rate for 1991 therefore exceeded 80 percent, compared to 1989. Lowering the exchange rate contributed to the increase in the inflation rate.

A 30-percent increase in customs duties led to an increase in the tax burden. The cost of importing raw materials, production requirements, and intermediate goods increased, affecting the inflation rate for the same year.

The report also documented some positive effects. The value of cash remittances by overseas workers increased from 1.7519 billion pounds to 2.5537 billion pounds, an increase of 45.8 percent during the first half of 1990-1991 compared to the corresponding period of the previous year.

Remittances in kind rose by 18.3 percent. The value of receipts remitted automatically from savings increased by 17.5 percent.

The other side of the report makes predictions for 1992 on the basis of current conditions and prospective changes. The year 1992 is expected to see the birth of a united Europe. This will have negative effects on exports by the Arab countries, including Egypt, of vegetables, fruit, citrus, and petrochemicals to the West European countries. On the other hand, 1992 is expected to see an increase in Egypt's revenues from tourism, petroleum exports, overseas workers' remittances, and receipts from navigation in the Suez Canal, following the decrease these revenues showed during the Gulf crisis.

Egypt's revenues from cotton are expected to continue the downward trend that began in 1988-1989 due to the weakness of Egyptian cotton in international competition.

The Egyptian Government has moved to raise prices paid for deliveries from farmers out of a desire to sell cotton domestically at world prices, which are 40 percent higher than domestic prices. Cotton prices are expected to increase domestically in 1992 to 66 percent of world prices.

As for the government's general budget, there will probably be an improvement in the general budget deficit as a result of debt cancellation, higher revenues from sales taxes, lower burdens for support, and revenues from the sale of some public enterprises. In addition, the surplus from some public agencies, such as petroleum, the Suez Canal Agency, and the Central Bank, will probably increase.

Strength of Pound, Reform Risks Considered

92AF0680A London *AL-SHARQ AL-AWSAT* in Arabic
7 Apr 92 p 10

[Article by Safa' al-Minyawi in Cairo: "With Tendency Toward 2-Percent Interest Rate Drop, Import Liberalization, Egyptian Economists Split Over Pound's Future, Government 'Measuring Its Steps' Before New Reform Phase"]

[Text] Officials in Egypt are facing a distressing dilemma as economic reform measures clash with its market's need for investment to escape the current recessionary phase. Just as Egypt is planning an average 2-percent interest rate reduction on Egyptian pound deposits (maximum 18.5 percent at present) to gradually encourage investment, official economists are warning that this step will have a negative impact on the pound's value against the dollar.

Economists and presidents of banks operating in Egypt hinted at the possibility of the pound depreciating against the dollar, which is now called the "green giant," in the year ahead, after having remained relatively stable for a full year.

Among the reasons cited by economic and financial experts as presaging a drop were: deterioration of the pound's value with the lifting of credit ceilings, cancellation of banned-imports lists, granting additional exemptions to investment projects, and higher interest rates for the dollar. All of these summarize forthcoming measures for economic reform.

For the first time in Egypt, the monetary and economics experts' expectations conflict on the pound's future and its ability to maintain itself against foreign currencies. Their opinions cover all possibilities: that it will drop in value, that it will maintain its value, and that it will have increased purchasing power. The only possibility that raises concern among officials, specialists, and the man on the street is that the pound might worsen against the dollar after having enjoyed a stable dollar exchange rate for over a year. Officials involved with the pound have tried to develop a "prescription" for protecting it in the Egyptian market, involving four pieces of advice. These are: the need to maintain a high interest rate on pound deposits, continued low world interest rates for the dollar, avoiding adopting an unrestricted import policy, and not granting additional benefits and exemptions to investment projects.

This prescription diametrically opposes Egypt's current economic reform policies, and clearly shows the difficulties facing the country's economic decision-makers.

AL-SHARQ AL-AWSAT polled official economists, bank presidents, and experts on how best to maintain the difficult equation between policies to liberalize the marketplace and to protect the pound.

'Ali Najm, former governor of the Central Bank of Egypt and president of the Delta Bank, began by pointing out that the pound's exchange rate has enjoyed a period of stability never seen before. This is the result of a number of factors, the most important being its high interest rate, rationalizing credit operations, working under specific ceilings when granting credit, withholding new incentives to investment, and low interest rates for the dollar.

In Najm's view, this combination of factors has helped stabilize the exchange rate, and any change in them is certain to lead to higher dollar exchange rates against the pound.

Dr. Hamdi 'Abd-al-'Azim, professor of economics at the Sadat Academy, agrees with this view. He points out that

continuing to operate a brokerage system in Egypt after establishing the exchange rate on a supply-and-demand basis, and allowing the central bank to intervene to buy and sell, really contributed to stabilizing the pound's value against foreign currencies.

'Abd-al-'Azim said that the rate for the dollar has continued to hover around 331-333 piasters [100 piasters=1 pound] for about a year, while the rate in brokerage companies differs very little from free market foreign currency rates, never more than 0.5 or 0.8 percent. Moreover, the difference between buying and selling rates has never been more than one or two piasters, by most estimates.

This is considered an indication of the success of the policy to unify the exchange rate and to prevent sudden jumps in Egypt's exchange rates, as has occurred in the past.

Dr. 'Abd-al-'Azim attributed this exchange rate policy's success to the tendency of dollar rates to be low throughout the world because America has reduced its interest rates to their lowest levels. The dollar's interest rate stands at 3.5 percent, and is designed to revive the American economy and overcome problems of unemployment and recession.

'Abd-al-'Azim added that once the American economy is out of its current crisis, dollar rates are expected to rise by about 10 percent, thus leading to lower pound exchange rates in the free market. The basic problem has been around for a long time: Egypt imports five times as much as it exports. This is reflected in an annual balance of payments deficit of 10 billion pounds, and in turn, reflects negatively on the pound's value.

Dr. 'Abd-al-'Azim pointed to recessionary constraints in the Egyptian economy, to inflation and higher production costs resulting from higher interest rates on pound loans, and to production input prices that are rising to world levels pursuant to agreements between Egypt and international organizations.

He warned against lowering the interest rate on deposits because of the negative effect this would have on the ongoing conversion of dollar deposits to pound deposits in banks in Egypt, pointing out that expansion of the current trend to lift quantity and tariff restrictions on imports would increase demand for dollars and thereby lower the pound's value.

He warned that leaving the door wide open to every request to travel abroad for pilgrimage, tourism, and medical treatment; and to investment company requests for foreign currency to cover their annual accounts at the banks, will lead to a reduction of the pound's value against the dollar.

Mustafa Zaki, director of the Chamber of Commerce in Cairo, has another view. He disagrees with those who warn of the possibility of a deterioration of the pound's value. He begins by explaining the evidence substantiating a continued deterioration of the dollar in Egypt. He says that dollar interest rates in America will not rise during this period, because America is lowering them to deal with its recession and with unemployment, which stands at 7.3

percent. Moreover, because raising the interest rate would impose greater burdens on investors and borrowers, this measure will not be taken before the American elections, at the earliest.

Zaki went on to say that even if economic authorities in Egypt reduced the pound interest rate by a small percentage every month, it would not cause the dollar to rise, because the dollar interest rate is only 3.5 percent, while interest on the pound sometimes exceeds 18.5 percent.

Zaki added that the Egyptian market continues to witness many conditions and [business] methods that work to increase the dollar supply. For example, most investors are trying to convert their pound debt at the banks into dollars. If the investor owes, for example, 2 million pounds at an interest rate of approximately 27 percent, converting his debt to the dollar means paying interest of about 3.5 percent, which is the LIBOR [London Interbank Offer Rate] rate, plus 2 percent interest to the bank, i.e., a total of not more than 6 percent in most cases.

As for what impact ending the import ban would have on reducing the pound rate, Mustafa Zaki says that although the door was opened for the importation of dried fruits and nuts, ceramics, fava beans, and other things in previous agreements, this did not cause increased dollar demand. He attributes this to the recession in the Egyptian market and the stockpiling of commodities. As a result, the market has begun to regulate itself by rationalizing imports, because lower purchasing power means there is no demand.

The Egyptian market, therefore, will not accept additional goods, because high prices constitute a barrier to consumption.

"While these factors reinforce continuing stable exchange rates and the value of the pound against the dollar, the beginning of summer with its revival of Arab tourism and return of Egyptian expatriate workers will mean an increased supply of dollars," Mustafa Zaki says, "and I think the dollar will drop against the pound, particularly since banks in Egypt are witnessing many instances of businessmen converting their dollar deposits to British pounds, because the banks are offering 10.5 percent interest. They then obtain dollar loans using these deposits as collateral, which are subsequently converted into Egyptian pounds for deposit in a bank at 18 percent interest, while they are paying [only] 6 percent interest on the dollar loan. This way they are able to obtain about 14 percent interest on their British pound deposit. This increases the demand for the pound and the supply of dollars."

Mustafa Zaki warned officials in Egypt against lowering the dollar interest rate, because "That would inject additional purchasing power into the local market. We should point out that treasury bills offered by the central bank helped bring in citizens' savings, and thereby lowered consumption rates."

There is a third point of view that opposes the possibility of either higher or lower pound exchange rates this year.

The chairman of the Importation Committee of the Egyptian Businessmen's Association, Ihab al-Masiri, emphasizes that dollar interest rates will not improve because of the impending American elections. Moreover, apart from a simple [negative] list, importation is currently unrestricted, and no additional openings are expected soon, except for automobiles.

He continued, "Pilgrimage requests likewise fail to put pressure on the dollar, because the season for the return of expatriates is nearly upon us. The central bank has a foreign currency reserve estimated at about \$2 billion, whereas when we entered the foreign currency free market system it stood at no more than \$500 million. This means that the central bank can control the foreign currency supply.

"As a result, I expect the exchange rate to remain stable during 1992, rising by only a very small percentage. In 1993 we [may] witness a drop in the value of the pound against the dollar, with the dollar jumping to over four pounds, given the possibility of rising dollar interest rates following the American elections. In 1993, we will also see rapid application of Egypt's remaining economic reform measures, pursuant to the letter of intent signed with the International Monetary Fund [IMF] and the World Bank, led by a lifting of the import ban on all goods, especially for consumer products. The only thing to protect the Egyptian pound from these reforms and burdens will be the increased production and quality of Egyptian products."

An official of the Research Department of the National Bank of Egypt attributes the reasons for the dollar's exchange rate to a number of international and domestic factors. The international factors include the fact that the dollar is denominated at higher than its actual value, as reflected in American economic indicators. This situation began in the mid-sixties, and even the United States devalued the dollar on two consecutive occasions, in 1971 and 1973. These depreciations of 10 and 7 percent were not sufficient in the eyes of many economists, however. He said the appearance of new economic powers like West Germany, and the fact that many areas of monetary instability have disappeared, or are about to do so, have contributed to the worsening dollar. The Japanese yen is fluctuating, but its overall tendency over the long term is to rise, unlike the dollar. Likewise, the European monetary system has, to a great degree, proven itself effective and capable of absorbing contrary changes in member currencies through its various mechanisms, the most important being exchange rates.

Regarding the domestic factors, the National Bank of Egypt official says that recently announced American economic indicators, including slow growth rates and an increasingly severe recessionary wave in the American economy after seven years of continued prosperity, have contributed to lower dollar interest rates, as has closing the interest rate gap between the American and Japanese economies. In addition to this, better interest rates in Germany have pushed dealers gradually further from the American capital market.

Despite recent improvement in the trade and balance of payments deficits, they are still so large as to have a negative effect on the dollar's rate.

Some economic analysts report that the low dollar rate may be beneficial to the American economy by increasing the competitive advantage of high-priced American exports, particularly against inexpensive Japanese products. This factor may also help American creditor banks in their attempts to recover a large part of their debts in cash from third world countries over a shorter period of time.

Interest Rates Hurting Investment, Growth

92AF0726B Cairo *AL-AHRAM WEEKLY* in English
15 Apr 92 p 4

[Article by Mervat El-Hosari—"A Bitter Pill To Swallow"]

[Text] Despite the large facilities extended by the government to private investors, private business are still suffering the adverse effects of the high interest rates and credit ceilings. Investors have been heard threatening to liquidate their projects or deposit their capital in banks instead of taking investment risks.

Since these measures were put into effect last year the government has promised that they will remain, since their main aim has been to check the inflation rate currently standing at a 17 per cent low as opposed to the 14 per cent target. Officials have announced that with the cutting of inflation rates the interests rates should slump automatically.

While the government restricts credit through fixing ceilings which hamper banks from extending finance to new investments, liquidity is being absorbed through the issuance of Treasury Bonds, which means that no new financing will be channelled towards investment.

Ironically the government calls for an increase in productivity under a policy which depends on imposing restrictions on financial credits, a relatively high rate of inflation, high rates of interest and the recessionary trend prevailing in the market.

Statistics revealed by the Ministry of Planning indicate that real economic growth rates retreated in the fiscal year 1990/91.

The follow-up reports on the state budget revealed that the budget deficit reached LE10 billion estimated in the budget. And the business sector is suffering from the adverse effects of high rates of interest and the credit ceilings. These measures simply mean that the recession will continue in the economy and investment will be hampered. Businessmen say it is difficult to create a favourable atmosphere for investment without expanding credits and decreasing interest rates to a reasonable level.

Hussein Sabbour, a member of the Egyptian Businessmen's Association, said that under two agreements signed with the International Monetary Fund and the World Bank, the government focused on curbing inflation rates while public expenditure remained unchanged. Both the government and the Central Bank resorted to imposing

credit ceilings on the banking system, together with increasing the interest rates which led to a marked fall in inflation rates, he said, adding that their side effect was the recession in the markets as well as the suspension of investments. According to Sabbour, banks are unable to finance new investments since the high rates of interests discourage initiation of new projects. On the other hand, the government is borrowing extensively from the banking system and from individuals through the Treasury Bonds, a trend which does not add to the present investments and does not create new job opportunities, he said.

Nevertheless, added Sabbour, these measures have a positive side, namely finding a stable exchange rate for the Egyptian pound. He attributed this to the lack of demand on the pound due to the relatively low investments, and depositors in hard currencies converting their saving accounts into savings in the Egyptian pound.

Sabbour expressed fears over the present low remittances from Egyptian expatriates, warning that the current stability in the foreign exchange rates would collapse due to the lack of steady flow of foreign currency. "The permanent source of Foreign currency is exports, not remittances from workers," he noted, adding that the increasing demand on foreign currencies would increase their exchange rates despite high interest rates for the Egyptian pound. This means a difficulty in establishing new projects he explained.

Ahmed Arafa, the Head of the Investors Division of the Federation of the Chambers of Commerce and Industry, said that the economic measures which continue to be implemented are inconsistent with the government's encouragement of investment. "We should realise that the private sector accounts for 30 per cent of the Egyptian industry, and for 50 percent of the total income of the industrial sector," he said. The interests of the private sector should be taken into consideration when any new measures are studied, he stated.

The present rate of interest, some 25 per cent a year, has dealt a severe blow to investment, Arafa said, since it is impossible to finance new investments at such a high rate. "Instead, investors deposit their money in banks in return for a 20 per cent rate without any risks," he pointed out.

Needless to say, he continued, raising the rate of interest reflects on the cost of production, which means that the prices of products would be high. "This will eventually lead to more inflation and the consumers will pay the price and they will be the real victims of these measures," Arafa stated.

Stock Market, Financial Law Due in Jun
92AF0700C London AL-SHARQ AL-AWSAT in Arabic
17 Apr 92 p 10

[Article: "New Financial Market Law Due in June To Allow Foreign Companies To Register on Stock Exchange"]

[Text] Cairo—A new law regulating the financial market and stock exchange in Egypt will be issued this June as part

of the economic liberalization policy aimed at increasing the role of the private sector, mobilizing savings, increasing resources, and stimulating the stock exchange.

The head of the Egyptian Financial Market Authority, Dr. Muhammad Hasan Fajj-al-Nur, said that all provisions of the new law had been drafted. It will allow foreign companies to register their shares on the Cairo stock exchange for the first time. It will also allow general regulations for the stock exchanges to be developed after they are provided with the most modern technology to form an information network and system for communicating with all financial and economic agencies.

The new law allows needed protection to be provided for the rights of those who do business, as well as the possibility of obtaining bank loans using shares as collateral.

The new law aims at encouraging the trend toward investment in joint stock companies to increase investor interest in investing in the stocks of these companies, thereby encouraging closed [private] joint stock companies to become public joint stock companies. It tightens and strengthens oversight on the activities of joint stock companies, so that their profit and loss statements will reflect their financial conditions with complete accuracy. This will strengthen confidence in the results of the activities of such companies and safeguard the rights of shareholders and those who do business with the companies.

At the same time, a comprehensive assessment of the condition of the securities market in Egypt is now being prepared. This will study various shortcomings and attempt to remedy them. In particular, the relative importance of bonds registered on the stock exchange is low in comparison with total government securities issued. At the end of June 1991, the ratio was only 3.8 percent, against 2 percent at the end of June 1986, with the balance standing at 2.3 billion [Egyptian] pounds. Also, the volume of trade in the securities market is small in comparison with the gross domestic product. In fiscal year 1988-1989, the ratio did not exceed 3 percent; in fiscal year 1990-1991, 2 percent.

There is also a clear disparity between securities market activity and bank deposits. The ratio of activity volume to total deposits did not exceed 1.7 percent in fiscal year 1990-1991. Also, the capital of closed subscription corporations had a relatively high importance in the total capital of companies registered on the stock exchange. This importance rose from 56 percent at the end of June 1986 to 63.1 percent at the end of June 1991. The proportion also increased in terms of number of companies, from 66.8 percent to 73.4 percent.

A responsible source in the Egyptian Central Bank stated that numerous factors qualify both Cairo and Alexandria to become a regional financial market, or even a principal financial market with an international role. Banking, financial, and other institutions such as insurance companies are present, as well as political and economic stability. Many positive indicators have been brought about because of efforts at economic reform. There has been substantial

treatment of the problem of foreign debt, greatly alleviating the weight of its burden on the balance of payments. Greater use is being made of foreign resources in the economic development process, instead of exhausting them in servicing foreign debt. Important steps are being taken in the area of liberalizing the foreign exchange system, with the aim of revealing the real demand for foreign currency and improving the flow of the foreign currency supply. This culminated in the creation of the free foreign currency market, whereby a realistic unified exchange rate will be defined for the Egyptian pound. A daily expanding network is doing business in this market as currency exchange companies affiliate.

The source added that another positive factor was the freeing of Egyptian pound interest rates. Coupled with this, the Central Bank's announced lending and discount rate have been made flexible and have been linked to the average interest rate on treasury bills, which are put up for bidding weekly so that financial institutions and other sectors, including the family sector, can subscribe.

These [treasury] bills have become the appropriate alternative for funding the budget deficit. It paves the way for making use of real savings, not what the banking system affords in the way of funding devices of an inflationary nature. At the same time, the bills pave the way for the Egyptian Central Bank to take part in operations of the open market.

The source stated that, in addition, Egypt enjoys a unique geographical position affording it a basic advantage in terms of factors needed for establishing a financial market. Egypt is in the center of the Arab world. It occupies an important position between the three continents of Africa, Asia, and Europe. Given this position, and by taking advantage of appropriate times of day, it is possible to complete transactions with financial markets in various parts of the world. In particular, the time differences from financial markets in West Europe, on the one hand, and from markets in East Asia, on the other hand, are small. This provides strong opportunities to mediate between them. In addition to its location, Egypt is considered a broad consumer market—the largest such market, in fact, in the Arab region.

The source added that the factors needed for establishment of a financial market in Egypt will be completed by giving the go-ahead to the appearance of futures markets for commodities and foreign exchange. By performing their function, these markets will moderate price movements within present markets. Also required is the establishment of firms engaging in activities new to Egypt, such as dealing in gold ingots and precious metals. This must be accompanied by encouragement of sound and legitimate brokerage activities on the broadest scale, and this requires the acquisition of new expertise.

Current Dollar Surplus Causes Concern

92AF0700B London AL-HAYAH in Arabic
11 Apr 92 p 10

[Article by Hamdi Rizq: "Warning About Danger of Estimated Billions in Dollar Surpluses in Egyptian Market"]

[Text] Cairo—Egyptian economic sources have warned about the danger of ongoing dollar surpluses in the Egyptian market, so great as to lead to the collapse of dollar prices during the next few days.

A responsible source at the Egyptian Central Bank said that the bank administration had received warnings from a number of agencies charged with monitoring currency prices in Egypt. The warnings indicated that an estimated \$4 billion in surplus were finding no buyers due to the clear drop in the dollar interest rate, which registered at between 3.8 and 4 percent, while interest rates on the Egyptian pound are near 16 percent. The ensuing heavy demand for the pound has lead to a great slump in the sale and purchase of dollars. In a report on the money market in Egypt, the Egyptian Funds Administration warned of the danger of the continued presence of such surpluses in the market—in Port Said alone they amount to over \$100 million—without intervention by the Central Bank to prevent them.

The administration expressed concern that these surpluses might reach the hands of currency and drug dealers. In the past, these activities suffered from a dollar shortage; now, however, they are finding dollars easily and at a price below the official price of 330 piasters [3.3 pounds]. These concerns are in line with recent demands by Egyptian currency exchange companies indicating a need to increase operating capital to confront increasing demand to sell dollars and replace them with Egyptian pounds. The combined purchasing power of these companies is too small to absorb the surpluses in the market. Based on observed activity by currency dealers, this will lead to broad currency trading. Dealers have begun to amass dollars from the market at this low price, hoping that the price will improve with the intervention of the Central Bank.

In a related development, the recent Egyptian Central Bank report indicated that the amount of foreign currency taken in by the free banking market in the first year of implementation of a unified market system for the dollar, which began on 27 February 1991, was \$10.5 billion. This is three times the figure realized by the market in years before implementation of the unified market, with the exchange rate remaining stable.

Investment Companies on Government Agenda

Alleged Improprieties

92AF0710A London AL-HAYAH in Arabic
17 Apr 92 p 10

[Article by Ahmad al-Sukri: "Deputies Accuse Companies of Controlling Media; Sidqi Accuses Them of Using Funds for Political Purposes"]

[Text] The Egyptian parliament [People's Assembly] confronted the government about [Islamic] investment companies [see JPRS reports NEA-90-004 and -005] for more than five hours, in a heated session that lasted until the early hours of 16 April 1992.

Two independent deputies, in their questioning of Egyptian Prime Minister Dr. 'Atif Sidqi, accused the government of remaining silent over these companies' violations and encouraging their continuance. In addition, they charged that certain former senior officials were involved in investment cases.

At the same time, the prime minister disclosed to parliament that these corporations had used funds that they had collected from individuals to achieve political goals on behalf of specific ideologies, referring to the fact that this is the first time that these facts have been made public. He said that he would not go into detail.

Independent deputy Dr. Ibrahim 'Awwarah sprang a surprise at the beginning of questioning, when he declared that documents pertaining to the questioning had been stolen from him during his trip to parliament, but that that would not prevent him from submitting what he had, relying on his memory.

'Awwarah described investment companies as being "the ugliest crime and catastrophe to which the Egyptian economy has been exposed during this century." He criticized the government for failure to create conduits for the utilization of Egyptians' savings, which would give them a reasonable profit. Rather, it had left them at the mercy of investment companies, which began to gain control over their savings and monopolize markets and commodities, from food to the gold trade, to their own advantage.

He explained that these companies invested only 5 percent of the funds they collected in Egypt, sending the rest of the money abroad. He pointed out that the Public Prosecutor's Office's investigation had confirmed that one company had been able to smuggle abroad \$450 million, 1 million British pounds, and 10 million Swiss francs. 'Awwarah also stated that one company lost \$400 million of depositors' funds through speculating in gold and other precious metals in world exchanges.

He said that these companies had penetrated all fields in Egypt, from education to the media. This was done through advertising and brokerage campaigns, so that they were able to control certain newspaper writers in Egypt and use them for their advertising purposes and for their support in times of crisis.

'Awwarah pointed out that the al-Rayyan Company contracted with one of the Egyptian [newspaper] publishing houses in the amount of 50 million Egyptian pounds to publish certain printed materials, whereas it could have bought a press for that amount, if it had wanted a real investment.

'Awwarah disclosed that the Public Prosecutor's investigations also revealed that Egyptian media organizations got more than \$25 million, which enabled a return of 30 million Egyptian pounds after arranging an accounting. Some of the organizations refused to return the money.

He said that the AKHBAR AL-YAWM [government daily] organization obtained \$4 million; the MAYU newspaper and publishing house (which belongs to the ruling National Party) \$3 million; the magazine AL-MUSAWWAR, \$3

million; ROSE AL-YUSUF [leftist], 3 million Deutsche marks; Dar al-Sha'b [publishers of AL-SHA'B, Socialist Labor Party newspaper], \$1.5 million; UKTUBAR magazine, \$4 million; AL-JUMHURIYAH [government daily], \$1 million; Dar al-Sharq, \$1 million; and al-Salafiyah Press, \$1 million.

Concerning the involvement of certain former senior officials, 'Awwarah said that one of the prime ministers dismissed his minister of economy for the benefit of these companies, and after his departure from office, this prime minister became head of one of the investment banks. He also stated that a former deputy prime minister had attempted to buy half of the Egyptian-American Bank on behalf of al-Rayyan Company. Certain governors have worked with these companies as investors, and several former interior ministers work for these companies. Gifts to senior officials start with gold pens and go up to Mercedes cars.

'Awwarah demanded new legislation to clean up these companies and return the funds to depositors through government insurance.

Independent deputy Muhammad al-(Sindiyuni), accused the government of being remiss and remaining silent about the investment companies' violations, despite the fact that it knew that the owners of these companies were currency dealers known to Egyptian security. He pointed out that the Ministry of Interior sent to the then-minister of economy, Dr. Mustafa al-Sa'id, the names of 55 currency dealers. The first three names on the list of investment company owners were Ahmad Tawfiq 'Abd-al-Fattah; Muhammad Tawfiq 'Abd-al-Fattah, known as al-Rayyan; and Ashraf al-Sayyid 'Ali Sa'd, known as Ashraf al-Sa'd, who fled abroad with depositors' funds.

Al-Sindiyuni said that no one can deny that depositors' funds have been smuggled abroad, nor that the funds that these companies have on hand represent only 14 percent of the depositors' earnings, which amounts to nearly 4.5 million Egyptian pounds. However, the total value of those funds was 500 million pounds, including 100 million pounds in fixed assets.

Al-Sindiyuni accused a group of former and current officials, without revealing their names, of cooperating with these companies to smuggle funds abroad. He referred to the fact that the Office of Illegal Gain had accused Counselor 'Abd-al-Qadir Ahmad 'Ali, the Socialist Public Prosecutor, after Ashraf al-Sa'd bought land from his sons.

Al-Sindiyuni said that the Socialist Public Prosecutor, who directed the investigation into many investment cases, had not submitted a detailed report to the People's Assembly about this matter, despite the deputies' request for such a report. He stressed that the government has a clear responsibility to see that the People's Assembly obtains such a report. It is necessary that the government uphold the rights of depositors, that Egyptian courts issue judgments against those company owners who fled abroad, and that they be arrested and prosecuted in Egypt.

In his comments on the questioning, Dr. 'Atif Sidqi stressed that the government has not been remiss in facing the problem. "The demands to arrest the investment companies' owners comprises an attack on the law and the constitution. This is not a defense of them, but this is an unacceptable matter in a country that holds high the banner of sovereignty of law. The use of emergency laws is the easy way, not the sound way. I have pledged that we will not use the emergency laws, except in cases of terrorism only."

Dr. Sidqi acknowledged that the government was aware that the owners of these companies were currency dealers, that it did have their names, and that it has drafted a law to reorganize these companies. He said: "The state is not lacking; the government is strong, and will continue to be strong, thanks to the assistance of this assembly." However, he also acknowledged that the government was lacking information about these companies, "because they pursued their business ventures covertly, and their activities can only be uncovered by chance."

Sidqi added: "Measures adopted by the government to correct the economic course, adjust exchange rate, give the dollar its true value, and raise interest rates, have helped to evaporate the desire to rush to investment companies."

Sidqi revealed that the government had formed a committee to go to a large number of countries to search for the investment companies' smuggled funds. However, it was unable to achieve anything specific with the foreign banks, "because the laws of these countries prevent that."

Sidqi told the parliament that the current government, or rather the previous government, has considerable responsibility for what happened, because the fiscal policies prevailing at that time caused individuals to go to those companies. "After reconsidering these matters, we are dealing with facts and preparing sound remedies."

Unfair Divestiture

92AF0710B London *AL-SHARQ AL-AWSAT* in Arabic
21 Apr 92 p 10

[Article: "Al-Huda Misr Chairman Sues Socialist Prosecutor, Accusing Him of Selling His Company's Assets at Low Prices"]

[Text] Tariq Abu-Husayn, chairman of the Board of Directors of al-Huda Misr Company, one of the failed [Islamic] investment companies in Egypt that the Public Prosecutor's Office was forced to take over, has filed an urgent appeal to keep the Socialist Public Prosecutor from sequestering his property. Abu-Husayn told *AL-SHARQ*

AL-AWSAT that he has informed the Public Prosecutor's Office of his demand that management of his property and funds be transferred from the Socialist Public Prosecutor to the Bureau of Impoundment in the Public Prosecutor's Office, because he would suffer losses from those public auctions that the Socialist Public Prosecutor's Office has conducted, and through which Abu-Husayn's property was sold at prices below their true value. Abu-Husayn considers that the Socialist Public Prosecutor public auctions to sell his property, as invalid, since they have sold this property at less than its current book value, which has resulted in a loss of money for the company and depositors.

He requested cancellation of the power of attorney that he drew up for the Socialist Public Prosecutor to dispose of his funds.

Abu-Husayn said that the Socialist Public Prosecutor had offered his al-Mansuriyah farm, which has 22 feddans, two villas, a swimming pool, and a tennis court, for sale at 4 million Egyptian pounds as a minimum price. In one session of the auction, he sold it for 3.25 million pounds and, when that was objected to in court, he obtained another million pounds from the lady who bought the farm. Therefore, the total amount was 4.25 million pounds, while its real worth was about 15 million pounds.

Abu-Husayn cited another example, whereby a farm 13 kilometers from his farm on a dirt road, with an area of only 18 feddans, sold for \$2 million 18 months ago, i.e., the equivalent of 6.5 million pounds.

Abu-Husayn added that the Socialist Public Prosecutor also sold an apartment in al-Jizah, with 675 [square] meters of floor space, for 1.25 million pounds. One should note that one square meter in this area sells for \$2,500. Another apartment of 178 square meters in the (Libon) [perhaps Le Bon] apartment building in al-Zamalik, was sold for 85,000 pounds, which is 20 percent of its true value. He sold a Mercedes 560 SIL, equipped, for 350,000 pounds, but its customs value is 700,000 pounds, and a Mercedes 500 SIL for 270,000 pounds, when its customs value was 500,000 pounds. Another Mercedes 300 SIL went for 260,000 pounds, whereas its customs value was 350,000 pounds.

He went on to say that the Socialist Public Prosecutor also sold a 30,000-square-meter piece of land near the Ramada Hotel in al-Haram [pyramids area], on the Cairo-Alexandria Desert Highway, for 1.5 million pounds, despite the fact that a minimum price of 1.3 million pounds had been set for it.

Study Analyzes Unemployment Crisis, Remedies

92AF0724A London *AL-HAYAH* in Arabic
21 Apr 92 p 11

[Article by Hamdi Rizq: "Unemployment in Egypt Goes Through Bottleneck of Second Five-Year Plan Without Making Any Progress; 3 Million Unemployed Egyptians, Mostly Youth; Single Job Costs 20,000 Pounds"]

[Text] Cairo—Egyptian economic experts disagree in their estimates of the extent of unemployment in Egypt. But in the absence of official figures, or because the official figures, when found, are conflicting, it is proven that unemployment in Egypt has become excessive and that it threatens to halt development programs, if not today then tomorrow.

Labor experts say that Dr. 'Atif Sidqi's government could find itself at the end of its second five-year plan (1987-1992) in an unequal confrontation with an army of unemployed citizens, whose number is determined by the figures of the Central Agency for Public Mobilization and Statistics (the authority in charge of preparing statistical data in Egypt) at nearly 3 million unemployed, representing 20 percent of the workforce, which is estimated by the same agency at more than 14 million workers in Egypt.

The agency figures, which are the most accurate of the Egyptian Government data, indicate that the estimated job opportunities at the end of 1990 amounted to 12.876 million jobs, twice the number of opportunities available in 1959 (6 million jobs). Of the 1959 figures, agriculture had the lion's share (60 percent), followed by the service sector. The industrial sector got the crumbs, having entered the arena of competition for the workforce timidly in wake of the July 1952 revolution.

In comparison, the workforce on the market at the end of 1990 amounted to nearly 13.733 million workers, a figure which exceeded available jobs by nearly 857,000 workers, not to mention the workforce under age 15, which was not included in the workforce distribution map, and which raises the number to more than 3 million people needing jobs.

If one adds to the domestic unemployed the Egyptian expatriate workers, determined by the statistics to be nearly 5 million—spread from the Gulf in the Arab East to Tripoli and Tunisia in the Maghreb—then Egypt's unemployment problem becomes a problem that truly poses a threat that must be eliminated.

Experts warn of the danger of increased unemployment to the soundness of Egyptian society's structure. These warnings have become even more intense with the entry of considerable numbers of youth into the spheres of delinquency and radicalism, both of which contribute to shaking the Egyptian social structure, which finds itself besieged by the fires of radicalism and the problems of delinquency.

Causes

To date, opinions differ on the causes of Egypt's unemployment crisis. Even though disagreement of opinions is

sometimes considered an act of mercy, experts' disagreement in determining the causes of the problem is a curse, because determining the causes of a problem makes it relatively easier—according to Dr. Muhammad 'Abd-al-Fattah Munji, head of the General Organization for Industrialization (public sector)—to develop a fundamental solution to the problem.

In a study he has conducted, Dr. Fathi [presumably Munji] notes several causes for the growing inflation problem in Egypt, including:

The flaw and deficiency in the employment, educational, and job promotion policies. Regarding employment policy, he says that Egypt has embraced the policy of government employment and government responsibility for providing a job to every citizen capable of working and every citizen who wishes to work and seeks employment. The government has tried to accomplish this through an employment distribution system that is based on government commitment to employ job seekers, and graduates of the educational institutes in particular. However, this commitment has diminished recently, and the employment obligation has been shifted toward the principle of competition for jobs in accordance with the conditions set by each institution. But this shift has not achieved the desired success to date.

Dr. Munji does not oppose the right to education, but he says that this policy has led to expanding the educational institutes and to increasing the numbers of graduates without linking available educational opportunities to anticipated work opportunities.

As for job promotion, Dr. Munji asserts that government policy allows an civil servant [muwazaf] to be promoted by financial [salary] grades without moving to a job position that represents development in his knowledge, skills, and practical responsibilities.

Another point is underlined in a paper drafted by Dr. Muhammad Kamal Mustafa, an Arab League workforce development advisor, who adds other causes to the above-mentioned ones, including: the workforce planning system's inability to generate enough appropriate jobs, inadequate data and information on supply and demand in the labor market, poor standard of graduates of the educational system, and failure to balance development in the various provinces.

The paper adds that the prevalent social values have helped intensify the labor market flaw by increasing the supply (a baby is born every 26 seconds) or by increasing the unproductive supply, meaning the increase in the rate of university graduates. The paper adds that this trend has been coupled with the failure of the media to modify the prevalent social values, which give preference to university education over intermediate vocational education.

If we add to this the repeated frustrations experienced by Egyptian labor, whether in the Arab Gulf in wake of the Kuwait crisis and the repatriation of more than 2 million workers from Iraq and thousands more from Saudi Arabia and Kuwait; or the expected repatriation of nearly 1.5

million Egyptians from Libya because of the demand for the extradition of those indicted in the Lockerbie incident—if we add these frustrations, then the causes confirm the serious battle which Dr. Sidqi's government has to wage when drafting the phased programs for the third (1992-1997) five-year plan.

Theoretical Cure

Disagreement among experts in assessing the number of unemployed, the causes of the problem, and even the means to deal with it, confirm that all the projected solutions are theoretical, that unemployment is driven by its own intrinsic mechanism, and that government intervention has had no more than a superficial effect on the problem.

The problem is that 400,000 young men enter the Egyptian labor market annually, and each job costs an average of 20,000 Egyptian pounds. This means that the current government is required to secure 8 billion pounds annually to absorb the labor added each year, not to mention the cost of absorbing 3 million unemployed workers. This amounts to 60 billion pounds. It is extremely difficult to secure this sum in light of the Egyptian economy's position and of Egypt's foreign debt burdens, set by World Bank estimates at 51 billion dollars at the end of 1989.

Dr. Ibrahim Mukhtar from the Egyptian Public Mobilization and Statistics Center defines the entries to a solution in several points:

1. Try to accomplish the investments included in the second five-year plan, which is nearing its end. Make serious efforts to enable the private sector to exceed its targets by eliminating the obstacles which constitute a negative factor for current and expected investors.
2. Give special priority to completing projects already under construction; operate idle capacities in the public sector; and deal with the problems of faltering private projects in order to create more employment.
3. Reconsider training plans and strengthen their efficiency to ensure training a labor force that befits the sectors, which suffer from shortages in some types of expertise and labor needed by projects under construction. This requires making data available on manpower conditions in Egypt and developing training methods at the centers specialized in this activity.
4. Emphasize the importance of the banking system's role in providing financing and aid to projects, especially to medium-size and small projects, so that new investments can be made and existing projects can enlarge their production capacity.
5. Reconsider work and employment plans to encourage early retirement for those who desire it, especially among women. This will open the opportunity for youth to fill vacancies created by such retirement.

Select Projects

There is a number of industrial, agricultural, and service projects that we can emphasize in order to create large

numbers of jobs for youth, including the reclamation of arable lands, dividing them into small plots, providing them with the basic utilities, and selling them on installment plans. The success of such projects depends on creating firms specialized in various agricultural services and in marketing crops. This requires the assistance and backing of local government agencies.

Large agricultural firms capable of engaging in intensive farming could also be encouraged, thus creating jobs for youth who lack the financial means to make direct agricultural investments. There is no doubt that exerting efforts to draw the peasant back to his village are a must for creating a productive village society. This can be made possible by freeing agricultural activity from shackles and obstacles, and by helping to promote environmental industrial projects that rely on agriculture as a main source of their raw materials.

Another demand calls for encouraging the creation of firms specialized in equipment, machinery, and means of transportation in order to increase this kind of production and to provide an opportunity for industrial development, including the development of heavy industries, and to revive these industries with greater efficiency. There is no doubt that medium-size and small industries require attention, bank financing, and encouragement from government agencies concerned with industrial guidance. There is also the group of industries that is tied to the tourism sector, which doesn't so much need intensive capital investment as it needs skilled labor.

Another point is to give importance to the tourism sector, because its projects offer numerous jobs. This sector covers the construction of tourist facilities and providing varied tourist services, including tourist advertising and marketing. The tourism process is extremely complex, and covers numerous aspects that can be developed.

It is also essential to develop the new communities, especially in areas that have encouraging potential. This includes utilizing main highways between the cities to build service stations and set up food-and-drink establishments, as well as shops. There is no doubt that boosting the building and construction sector will create numerous jobs.

The role that the fiscal and monetary policy play in alleviating the unemployment problem cannot be underestimated. But the instruments of this policy must be used with extreme caution, because Egypt is experiencing an inflationary recession. Credit expansion must be channeled toward productive projects that do not contribute to increasing inflation.

New Forms of Unemployment

A recent study conducted by experts in the Egyptian specialized national councils demonstrates that unemployment in Egypt has assumed new forms. Unemployment has risen among university and institute graduates, and has dropped among agricultural workers.

The study cites the following evidence:

1. Unemployment rate among the workforce aged 15 and above is 12.3 percent.
2. Workers who lost their jobs amount to 23.6 percent of all those currently unemployed.
3. A total of 90 percent of the unemployed are in the 15-29 age group.
4. There are no unemployed among the 60-year and over age group. Unemployed who worked previously are found in all age groups, from 15 to 60 years. But unemployed who have never worked before are found in the 15-35 year age group only.
5. A total of 53.2 percent of the currently unemployed who worked previously are illiterate. Currently unemployed university graduates who worked previously do not exceed 9.3 percent. There is a great difference between the percentage of unemployed university graduates who have never been employed (19.7 percent), and the unemployed intermediate institute graduates who have never been employed (65.4 percent).
6. The urban unemployment rate is 13.7 percent. The rate drops to 11 percent in the countryside.

7. The study sees that the unemployment rate is higher in the urban areas than in the countryside, because urban areas attract graduates from all educational stages. Because of the difficulty these graduates have encountered in obtaining jobs or work, the numbers of unemployed graduates have accumulated. As for unemployment in the countryside, agriculture in Egypt is suffering because of the emigration of agricultural labor to the cities or to the Arab countries to work there.

Tough Penalties Proposed for Sex Crimes

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[Article: "Tougher Penalties Put Before People's Assembly"; first paragraph is AL-AHRAM WEEKLY in bold-face]

[Text] In response to the public outrage at the sexual assault in Ataba, the government has drafted legislative amendments that provide harsher penalties for sexual offences. The approval of the People's Assembly is needed.

The government has sent to the People's Assembly new legislative amendments that provide harsher penalties—life imprisonment with hard labour and even death in certain cases—for a variety of sexual offences that fall short of rape. The draft modifications, authorised by President Hosni Mubarak himself, will be debated by the Assembly which may make further changes, but its approval is almost certain.

The new law was in response to a national outcry triggered by a sexual assault on a 23-year-old woman on 20 March at Ataba Square. Two men were arrested and are awaiting trial at present.

An explanatory memorandum attached to the new law spoke of the "horror felt by society for crimes committed

against morals and honour." It said the "pain, sadness and anger felt by every person was a reflection of Egypt's moral consciousness and its unshakable faith in religious virtues and noble values."

Under the new amendments, a sexual assault on another person, or an attempted assault, involving the use of force or threats, will carry a punishment of provisional (less than 15 years) imprisonment with hard labour. The penalty will be raised to life (25 years) imprisonment with hard labour in the following cases:

- if the assailant is related to the victim, is in charge of his/her education or upbringing, or has an authority over him/her, or if the victim is a domestic helper working at the home of the assailant,
- if the assailant, in committing his crime, exploits his status, position, profession or the confidence placed in him,
- if the crime is committed by two persons or more; if the crime is committed in public, or if the victim suffers injuries or wounds as a result of the crime,
- if the attacker is armed; if he is under the influence of alcohol or drugs; or if he used medical drugs or narcotics in committing his crime,
- if the victim has no discriminatory power or is below seven years of age, even if the attacker does not use force or threats.

The penalty will be death if the crime is committed in circumstances involving two or more of the above-mentioned factors or conditions.

Any person who makes a sexual assault on a boy or a girl between the ages of seven and 18, even if no force or threats are used, will be punished by imprisonment. The penalty will be increased to imprisonment with hard labour in any of the above-mentioned cases.

Any person arrested on a street or in a public place inciting others to commit indecency (moral depravity), whether by words or signals, will be punished by imprisonment for a period of not less than six months. If the culprit commits the same crime again, within a year from the date on which he was sentenced for the first crime, the penalty will be imprisonment for a period of not less than one year and a fine of not more than LE[pound]500. He should also be placed under police surveillance for a period identical to the imprisonment term.

Any person who commits an indecent act in public will be punished by imprisonment for a period of not less than three months.

Any person who offends the modesty of a female, whether by word or action, on a street or in a public place, will be punished by imprisonment for a period of not less than six months. If the culprit commits the same crime again, within a year from the date on which he was sentenced for the first crime, he will be punished by imprisonment for a period of not less than one year and a fine of not more than LE500.